

Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-01

INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06

SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 ABF-01 /095 W

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FM AMEMBASSY SANTIAGO

TO SECSTATE WASHDC 6399

INFO AMEMBASSY BUENOS AIRES

AMEMBASSY BRASILIA

AMEMBASSY LIMA

UNCLAS SANTIAGO 7392

EO 11652: NA

TAGS: ECON, CI, AFSP, ALOW, AFIN

SUBJ: INFLATION IN AUGUST - THE TREND

REF: SANTIAGO 7058

1. CONSUMER PRICES IN SANTIAGO INCREASED BY 3.4 PERCENT DURING AUGUST ACCORDING TO THE MONTHLY SURVEY OF THE NATIONAL INSTITUTE OF STATISTICS (INE). INFLATION DURING THE FIRST EIGHT MONTHS OF 1977 AMOUNTED TO 43.5 PERCENT, DOWN FROM 118.9 PERCENT DURING THE SAME PERIOD LAST YEAR.

2. THE FOOD COMPONENT ACCOUNTED FOR 1.9 PERCENTAGE POINTS OF THE 3.4 PERCENT INCREASE; HOUSING FOR 0.7 POINTS; CLOTHING FOR 0.2 POINTS AND MISCELLANEOUS FOR 0.6 POINTS.

3. INFLATION MEASURED OVER 12 MONTH PERIOD NOW STANDS AT 79.9 PERCENT. THIS FIGURE COMPARES FAVORABLY WITH THE SAME ESTIMATE FOR AUGUST 1976 WHICH WAS 200.3 PERCENT AND AUGUST 1975 WHICH WAS 403.3 PERCENT.

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4. A LINEAR TREND LINE STARTING FROM SEPTEMBER 1976 THROUGH AUGUST 1977 INDICATES THAT INFLATION DURING 1977 COULD BE ABOUT 66 PERCENT. IN ORDER TO ACHIEVE THIS, THE MONTHLY AVERAGE INFLATION RATE FOR THE NEXT 4 MONTHS SHOULD NOT EXCEED 3.7 PERCENT. SO FAR, WE SEE NO REASON WHY THE MONTHLY RATE NEED BE ANY HIGHER. IN THIS CONNECTION, ANY POSSIBLE REINFLATIONARY EFFECTS ARISING FROM THE 6 PERCENT DEVALUATION OF AUGUST 29

SHOULD BE COUNTERBALANCED BY THE SIMULTANEOUS TARIFF REDUCTION. THE TWIN ANTI-INFLATIONARY EFFECTS OF A GROWING VOLUME OF IMPORTS, WHICH PRICE COMPETITION AND THE DRAWING DOWN ON THE MONEY SUPPLY IN ORDER TO PAY FOR THEM, SHOULD CONTINUE MUCH AS BEFORE.

5. IT SHOULD BE NOTED THAT THE EXPANSION OF THE MONEY SUPPLY (M1, OR CURRENCY IN CIRCULATION AND DEMAND DEPOSITS) FOR THE PERIOD JANUARY-AUGUST, FOR WHICH INFLATION STOOD AT 43.5 PERCENT, WAS 74.2 PERCENT. IF M2 (M1 PLUS SAVINGS AND TIME DEPOSITS) FOR THE PERIOD JANUARY-AUGUST, FOR WHICH INFLATION STOOD AT 43.5 PERCENT, WAS 74.2 PERCENT. IF M2 (M1 PLUS SAVINGS AND TIME DEPOSITS) IS USED, THE PERCENTAGE INCREASE IS 105.3 PERCENT.

6. WERE THE CHILEAN ECONOMY STILL AS DORMANT AS IT WAS BY THE END OF 1975, THIS VERY CONSIDERABLE INCREASE IN THE MONEY SUPPLY WOULD PRESUMABLY HAVE RESULTED IN A MUCH HIGHER RATE OF INFLATION. THAT IT HAS NOT INDICATES THE EFFECT OF A FAR GREATER LEVEL OF ECONOMIC ACTIVITY THIS YEAR, WHICH IN TURN HAS REQUIRED, AND HAS BEEN ABLE TO ABSORB, A RELATIVELY HIGHER RATIO OF MONEY SUPPLY TO GDP.

7. NEVERTHELESS, THE MONETARY AUTHORITIES CONTINUE TO CONSIDER THE CHILEAN ECONOMY TO BE HIGHLY VULNERABLE TO REFLATION. FOR THAT REASON, THEY PLAN TO MAINTAIN A RELATIVELY RESTRICTIVE MONETARY POLICY, AND TO GIVE ANTI-INFLATIONARY MEASURES GREATER PRIORITY THAN MEASURES TO STIMULATE RAPID ECONOMIC GROWTH. THIS, IN TURN, UNCLASSIFIED

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WILL MEAN CONTINUED HIGH (THOUGH LOWERING) UNEMPLOYMENT LEVELS. NELSON

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Message Attributes

Automatic Decaptioning: X
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Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
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Disposition Event:
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